

## Message Text

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ACTION EB-07

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FM AMEMBASSY WARSAW

TO SECSTATE WASHDC 9515

C O N F I D E N T I A L WARSAW 0506

E.O. 11652: GDS

TAGS: EAIR, PL

SUBJECT: CIVAIR-POLISH REQUEST FOR CONSULTATIONS

REF: STATE 12309

1. SUMMARY. DURING DISCUSSION OF CIVIL-AVIATION SITUATION WITH POLISH FOREIGN MINISTRY, EMBASSY PROTESTED RESTRICTIONS LOT HAS PLACED ON PANAM'S ZLOTY SALES TO NEW YORK. POLISH SIDE URGED THAT CONSULTATIONS ON RENEWAL OF AGREEMENT BEGIN SOON AND NOTED POLITICAL VALUE OF SERVICE BY THE TWO NATIONAL CARRIERS DESPITE ECONOMIC PROBLEMS. FURTHER INFORMAL DISCUSSION WAS SUGGESTED WHEN OUTCOME OF DISCUSSIONS BETWEEN PANAM AND LOT IN NEW YORK IS KNOWN. END SUMMARY.

2. DCM CALLED ON KINAST, DIRECTOR DEPARTMENT III, MINISTRY OF FOREIGN AFFAIRS, ON JANUARY 23 TO DISCUSS CIVIL-AVIATION MATTERS IN THE LIGHT OF PANAM'S TALKS WITH LOT IN WARSAW THE PRECEDING WEEK. KINAST HAD EARLIER REQUESTED POSTPONEMENT OF THIS MEETING UNTIL AFTER AN INTER-DEPARTMENTAL DISCUSSION ON CIVIL AVIATION AMONG INTERESTED POLISH AGENCIES. KINAST BEGAN BY APOLOGIZING FOR THE FACT THAT THE POLISH MEETING HAD NOT YET TAKEN PLACE. HE SAID THAT WILANOWSKI, CHAIRMAN OF LOT, WAS STILL TALKING WITH PANAM IN NEW YORK AND THAT HE WAS SENDING FAVORABLE SIGNALS BACK INDICATING THAT AGREE BNT IN PRINCIPLE HAD BEEN REACHED, ALTHOUGH

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IT WAS NOT CLEAR ON EXACTLY WHAT SUBJECTS.

3. DCM SAID THIS WAS PLEASING NEWS SINCE PANAM TALKS IN WARSAW JANUARY 15 HAD MADE VISIBLE PROGRESS. PANAM HAD INFORMED THE EMBASSY THAT MIECZYSLAW ROMAN, DIRECTOR OF THE POLISH CENTRAL CIVIL AVIATION ADMINISTRATION, HAD TOLD THE PANAM REPS THAT HE SAW THREE POSSIBLE OUTCOMES FROM RENEGOTIATION OF THE AGREEMENT. THE FIRST WOULD BE AN AGREEMENT WHICH WOULD GRANT EACH SIDE UNLIMITED CAPACITY. THE SECOND ALTERNATIVE WOULD BE TO ASSIGN EACH AIRLINE THE SAME NUMBER OF TRANS-ATLANTIC FREQUENCIES. THE THIRD AND LAST ALTERNATIVE WOULD BE TO DISCONTINUE SERVICE ENTIRELY. DCM NOTED THAT NEITHER PANAM OR THE EMBASSY FOUND ANY OF THESE ALTERNATIVES ATTRACTIVE. WE WOULD BE SORRY TO SEE SERVICE DISCONTINUED, BUT WOULD HAVE TO REGARD IT AS A REALISTIC POSSIBILITY IF NEITHER SIDE FOUND THE ROUTE ECONOMICALLY REWARDING. AS WE UNDERSTOOD LOT'S POSITION, IT WAS LOSING MONEY ON THE NORTH ATLANTIC RUN DESPITE THE FACT THAT IT ENJOYED THE HIGHEST LOAD FACTOR OF ANY AIRLINE ON THIS RUN. AS A RESULT OF ITS PECULIAR ACCOUNTING METHODS, LOT FOUND ITSELF IN A POSITION WHERE ADDITIONAL FREQUENCIES APPARENTLY WOULD ONLY LEAD TO GREATER HARD-CURRENCY DEFICITS.

4. LOT HAD NOW RESORTED, ACCORDING TO INFORMATION PROVIDED US BY PANAM, TO RESTRICTING THE SALE OF TICKETS FOR ZLOTYS ON PANAM TO NEW YORK. PANAM HAD PROTESTED THIS RESTRICTION IN A LETTER OF JANUARY 8 FROM ITS DIRECTOR FOR POLAND, MR. BOCWINSKI, TO MR. HEDEMAN, THE COMMERCIAL DIRECTOR OF LOT. DURING THE JANUARY 15 INTER-AIRLINE TALKS, LOT HAD REPORTEDLY ACKNOWLEDGED THAT THIS SITUATION EXISTED AND MR. BOCWINSKI HAD ASKED THE EMBASSY TO PROTEST, WHICH WE WERE NOW DOING. LOT'S FAILURE TO SELL TICKETS TO NEW YORK ON PANAM FOR ZLOTYS WOULD, IN THE EMBASSY'S VIEW, CONSTITUTE A FURTHER VIOLATION OF THE AGREEMENT AND DECREASE THE LIKELIHOOD THAT THE US COULD AGREE TO LOT'S REQUEST FOR ADDITIONAL FREQUENCIES OR A SECOND US DESTINATION.

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5. KINAST SAID THAT THIS WAS THE FIRST TIME HE HAD HEARD THE CHARGE THAT LOT WAS RESTRICTING SALES OF TICKETS IN ZLOTY TO NEW YORK AND SAID HE WOULD LOOK INTO THE MATTER. HE SAID THAT BOTH AIRLINES WERE CLEARLY DISSATISFIED WITH THE PRESENT SITUATION IN THE LIGHT OF WHICH HE WAS NOT SURPRISED THAT THE SUGGESTION TO STOP FLIGHTS MIGHT HAVE ARisen. HOWEVER, FOR POLITICAL REASONS, THE POLISH GOVERNMENT WOULD

REGARD THIS AS A BACKWARD STEP. POLAND BELIEVES THAT AIRLINE SERVICE BY THE CARRIERS OF THE TWO COUNTRIES CONSTITUTES A VALUABLE AND VISIBLE LINK WHICH WE SHOULD MAKE EVERY EFFORT TO PRESERVE. LOT'S FINANCIAL PROBLEMS REPRESENT AN OBJECTIVE DIFFICULTY, BUT THERE IS GOOD WILL ON THE POLISH SIDE AND A GENUINE DESIRE TO REACH AGREEMENT. SINCE THE PRESENT AGREEMENT EXPIRES THIS YEAR, POLAND IS ANXIOUS THAT CONSULTATIONS BEGIN AS SOON AS POSSIBLE. THE POLISH AUTHORITIES NOTE THAT THE U.S. SIDE HAS NOT BEEN ABLE TO AGREE TO THE POLISH SUGGESTION THAT CONSULTATIONS START IN FEBRUARY AND ARE SOMEWHAT ALARMED THAT NO ALTERNATIVE DATE HAS BEEN MENTIONED. SINCE TIME IS SHORT, THE POLISH SIDE IS ANXIOUS TO START TALKING AS SOON AS POSSIBLE.

6. DCM SAID U.S. ALSO WISHES TO SEE AIR SERVICE BETWEEN THE TWO COUNTRIES CONTINUE. WE BELIEVE THERE IS NO REASON WHY BOTH AIRLINES CAN NOT ENJOY FAVORABLE ECONOMIC RESULTS. WHILE WE UNDERSTAND THE PROBLEM THAT LOT PERCEIVES IN ACCOUNTING FOR ITS ZLOTY REVENUES, THERE IS SIMPLY NO WAY THAT THE U.S. CAN BE EXPECTED TO AGREE THAT ZLOTY PASSENGER FLYING ON LOT ARE NOT TO BE COUNTED AS REVENUE-PRODUCING FOR THE POLISH SIDE. BOTH AIRLINES ARE MEMBERS OF IATA AND THERE IS A PRESUMPTION THAT THE CURRENCY OF EACH COUNTRY HAS VALUE. IF THE POLISH SIDE CONTINUES TO INSIST THAT ITS ZLOTY REVENUES ARE NOT TO BE CALCULATED IN DETERMINING BALANCED ECONOMIC BENEFITS, THEN THERE APPEARS TO BE NO RATIONAL BASIS ON WHICH THE TWO SIDES CAN NEGOTIATE. WE HOPE TO AVOID A REPETITION OF THE MISUNDERSTANDING WHICH BECAME APPARENT DURING THE FIRST ROUND OF CONSULTATIONS LAST JUNE. IF PRODUCTIVE NEGOTIATIONS ARE TO BE HELD THEN IT IS IMPORTANT THAT SOME  
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AGREEMENT BE REACHED BETWEEN THE AIRLINES ON THE SUBJECT OF LOT'S OBLIGATION TO SELL IN ZLOTYS FOR PANAM. THE RESTRICTIONS APPARENTLY BEING PLACED ON SALES TO NEW YORK HAVE ONLY MADE THE SITUATION WORSE.

7 WHILE WE SHOULD PERHAPS AWAIT THE REPORT OF THE CURRENT AIRLINE TALKS IN NEW YORK BEFORE EXPLORING PROPOSALS FOR THE FUTURE, THE U.S. SIDE BELIEVES THAT SOME SOLUTION INVOLVING UNRESTRICTED SALES FOR ZLOTYS TO NEW YORK AND THE INITIATION OF SALES BEYOND NEW YORK MUST BE FOUND NOW, IF LOT IS SERIOUSLY INTERESTED IN OBTAINING AN ADDITIONAL FREQUENCY IN THE SUMMER REASON OF 1976. SINCE THE PROSPECT OF UNLIMITED SALES FOR ZLOTYS FOR PANAM TO ALL U.S. POINTS APPARENTLY ALARMS THE POLISH MINISTRY OF FINANCE, PERHAPS LOT MIGHT

WISH TO PROPOSE TO PANAM THAT IT WOULD SELL TICKETS ON PANAM BEYOND NEW YORK FOR ZLOTYS UP TO SOME SPECIFIC MAXIMUM DOLLAR EQUIVALENT BETWEEN NOW AND THE EXPIRATION DATE OF THE CURRENT AGREEMENT AT THE END OF OCTOBER. WHAT THE TOTAL AMOUNT MIGHT BE WOULD OF COURSE BE A MATTER FOR DISCUSSION BETWEEN THE AIRLINES, BUT SOME AGREEMENT ALONG THESE LINES WOULD AT LEAST BE A GESTURE OF POLISH GOOD FAITH IN COMPLYING WITH THE TERMS OF THE AGREEMENT. UNLESS THERE IS SOME MOVEMENT ON THIS POINT, IT IS DIFFICULT TO SEE HOW LOT CAN REALISTICALLY EXPECT TO OBTAIN AN ADDITIONAL FREQUENCY.

8. KINAST AND DCM AGREED TO MEET AGAIN WHEN EACH SIDE HAD RECEIVED REPORT ON CURRENT LOT/PANAM DISCUSSIONS IN NEW YORK.  
DAVIES

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## Message Attributes

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